

[Home](#) / [Store](#) / [Bear Market Playbook: Protect and Profit When Markets Drop 20%+](#) / Complete Guide

Complete Guide

# Bear Market Playbook: Protect and Profit When Markets Drop 20%+

A bear market is not a special event that happens to other investors. It is a recurring cost of owning risky assets. Once stocks fall 20% or more from a recent peak, the real test begins: whether you will sell in panic, keep buying on schedule, harvest losses intelligently, and rebalance into the pain instead of fleeing from it. This playbook is designed to make your behavior during the next bear market more profitable and less emotional than the average investor's.

## 1. Foundation

A bear market is commonly defined as a decline of 20% or more from a recent market peak. That threshold matters less than the behavioral reality: the news gets louder, forecasts get darker, and your account balance falls faster than your instincts want to tolerate. Bear markets do not all look the same. The 2007-2009 decline was deep and prolonged. The 2020 COVID bear was violent but short. The 2022 decline hit both stocks and bonds in a way many investors were not mentally prepared for. The historical lesson is not that every bear is identical. It is that large declines are normal enough to deserve a written response plan.

Selling in the middle of a bear market turns a temporary market decline into a permanent capital loss unless you later re-enter at lower prices with discipline—which few panicked investors actually do. The market's strongest rebound days often cluster close to its ugliest days. Missing even a small handful of recovery days can damage long-term returns substantially. That is why the real cost of panic selling is not just the sale itself; it is the broken process that often follows, where the investor waits for “clarity” and buys back only after the recovery is well underway.

Bear markets are also when rebalancing and dollar-cost averaging become most valuable. If your plan calls for 80% stocks and a decline drags the portfolio to 72%

stocks, buying back to target is mechanically buying lower. If you are contributing every paycheck, the same monthly investment purchases more shares at depressed prices. These actions feel uncomfortable precisely because they are correct. A bear market rewards written rules because emotion is least trustworthy when prices are cheapest.

Taxable investors have one additional advantage during declines: tax-loss harvesting. Selling a position at a loss and replacing it with a similar—but not substantially identical—holding can bank a tax asset while keeping your money invested. The loss can offset capital gains and up to a limited amount of ordinary income each year, with the rest carried forward. Done properly, tax-loss harvesting turns market pain into a future tax benefit. Done sloppily, it triggers wash-sale issues or leaves the investor out of the market while prices rebound.

In practical terms, the highest-leverage inputs are bear-market definition, automatic investing rule, and rebalance trigger. If those are guessed from memory, the rest of the plan turns into opinion instead of execution. Pull them from current statements, quotes, payroll records, or plan documents before making changes. That groundwork is what turns the rest of the guide from good advice into a usable operating plan.

## 2. Step-by-Step System

Run these steps in sequence. The early work on define your bear-market rules before the market gives you a reason to break them, keep dollar-cost averaging through the decline, and rebalance into weakness instead of waiting for comfort determines the quality of the later execution. Skipping ahead usually creates rework because the answer depends on information gathered earlier in the process.

1

## **Define your bear-market rules before the market gives you a reason to break them**

Write down what a bear market means for your portfolio and what actions you will and will not take. Example: "If the stock market falls 20% from its peak, I will continue all automatic contributions, review allocation drift monthly, and make no discretionary stock sales unless my life circumstances change." That rule sounds basic, but it prevents the dangerous improvisation that tends to happen when fear spikes.

Also define the exceptions in advance. If you will need cash for a home purchase in six months, that money should not be in volatile equities by the time the bear arrives. Emergency liquidity planning belongs in the playbook too.

2

## **Keep dollar-cost averaging through the decline**

Automatic investing is the bear-market cheat code because it turns indecision into continued purchases. Whether you contribute through a 401(k), IRA, or taxable brokerage, keep the schedule running unless the money is genuinely needed elsewhere. When shares are down 25% or 30%, the same paycheck buys more future ownership. That is uncomfortable in real time, but it is the mathematical engine of recovery wealth.

If you receive bonuses or irregular income, consider a written rule for bear markets such as sending a fixed share of every bonus into the portfolio while stocks remain below the prior peak. The rule matters more than the exact percentage.

3

### **Rebalance into weakness instead of waiting for comfort**

A portfolio that starts at 70/30 or 80/20 usually becomes more bond-heavy after equities plunge because the stock sleeve shrinks faster. Rebalancing means selling some of what held up better—often bonds or cash—and buying the beaten-down stock sleeve back to target. This is one of the few ways individual investors can systematically buy low without forecasting. Use the drift rule you set in calmer times. If stocks are 8 percentage points below target and your rule says rebalance at 5, act.

Whenever possible, do the rebalancing with new contributions or within tax-sheltered accounts to minimize taxes. The most important thing is restoring the target, not making the process dramatic.

4

### **Harvest losses in taxable accounts without leaving the market**

When a taxable holding falls below your cost basis, look for a tax-loss-harvesting opportunity. Example: sell a total U.S. market ETF at a loss and replace it with a large-cap and extended-market combination or a similar broad-market ETF that is not substantially identical. Stay invested and avoid wash-sale problems by not repurchasing the same security within the 30-day window on either side of the sale, including in IRAs.

Keep records of cost basis, replacement funds, and the reason for the trade. Tax-loss harvesting is a tax-management technique, not a market-timing strategy.

5

### **Use psychological anchors that reduce panic behavior**

Numbers help when narratives get scary. Keep a list of historical bear markets, recovery timelines, and the percentage decline your current portfolio could plausibly experience. If you know in advance that a 90/10 portfolio can drop around 30% in a severe downturn, the actual event is still painful, but it is no longer “unprecedented.” Another useful anchor is progress in shares rather than dollars. If your monthly contribution bought 10 shares before the drop and 14 shares during the drop, the decline is visibly creating future leverage.

Some investors also benefit from reducing portfolio checks to once a week or once a month during severe volatility. Less screen time often means fewer bad decisions.

6

### **Review whether the bear market reveals a genuine plan problem**

A bear market should not automatically trigger changes, but it can expose weak points. Maybe your emergency fund is too small, forcing you to view the portfolio as near-term cash. Maybe your stock allocation was too aggressive for your actual nerves. Maybe you realized you do not understand your holdings well enough to trust them during a downturn. Those are useful lessons—but they should be applied carefully after emotions cool, not by panic-selling at the bottom.

The right post-bear adjustment is usually structural, not reactive: more cash reserve, a slightly lower equity target, or a clearer investment policy statement.

## **3. Key Worksheets & Checklists**

These worksheets give you a written bear-market response before the next severe decline arrives. Your future self needs rules, rebalancing triggers, and tax-loss notes more than it needs another doom-scrolling session.

Work the cards in order. Start with bear-market definition, automatic investing rule, and rebalance trigger while the relevant documents are open. Then move through the execution checklist from top to bottom so the highest-value actions happen before lower-value cleanup work. Finally, put the first action windows—At -20%, Monthly during decline, and At new cash inflow—on your calendar so the guide becomes dated follow-through instead of something you read once and forget.

### Bear Market Response Worksheet

<b>Bear-market definition</b>	Write the decline threshold and the portfolio actions that will automatically happen when the threshold is reached.
<b>Automatic investing rule</b>	Document which contributions keep running and whether bonuses or extra cash are deployed during major declines.
<b>Rebalance trigger</b>	State the exact drift threshold or calendar rule that will trigger buying back into stocks.
<b>Tax-loss harvest list</b>	List taxable holdings, cost basis, and acceptable replacement funds in advance.
<b>Behavioral anchors</b>	Write the portfolio's expected bear-market decline range and the historical examples you will revisit instead of headlines.
<b>Emergency liquidity check</b>	Confirm how much cash is truly needed in the next 12 to 24 months so you are not forced to sell stocks for planned spending.

## Execution Checklist

- Keep automatic contributions running unless the money is genuinely needed for near-term spending.
- Rebalance based on written thresholds, not on market sentiment.
- Harvest taxable losses only with a clean replacement plan and wash-sale awareness.
- Limit portfolio checking if frequent viewing increases panic behavior.
- Use historical context as an anchor instead of treating every bear as a unique apocalypse.
- Apply any lessons after emotions cool, not in the middle of maximum fear.

### 30-60-90 Day Tracker

Window	Action	Evidence Complete
At -20%	Review the written bear-market rules and confirm contributions continue.	No panic changes made
Monthly during decline	Check drift and taxable-loss opportunities.	Rebalance or harvest actions documented if triggered
At new cash inflow	Direct bonus or surplus cash according to the prewritten rule.	Extra cash deployed intentionally
At recovery	Review whether the portfolio followed the plan.	Behavioral scorecard complete
Post-bear review	Adjust only structural weaknesses exposed by the event.	Improved policy statement saved

## 4. Common Mistakes

The expensive errors in this topic usually come from some combination of selling because the decline feels different this time, stopping contributions at exactly the wrong time, and tax-loss harvesting without replacement planning. Read these before implementing so you know where otherwise-solid plans most often break down.

### **Selling because the decline feels different this time**

Every bear market comes with a story that sounds uniquely convincing. Selling without a plan usually locks in damage and misses recovery.

### **Stopping contributions at exactly the wrong time**

Bear markets are when each dollar buys more shares. Turning off the flow destroys one of the biggest long-term advantages available to regular savers.

### **Tax-loss harvesting without replacement planning**

A harvested loss is only useful if you stay invested and avoid wash-sale issues.

### **Confusing discomfort with danger**

A severe drawdown in a risk-appropriate portfolio is painful but often normal. Real danger is selling the plan instead of executing it.

## **5. Next Steps**

Write your bear-market rules now, while the market is calm and your brain is unimpressed by red screens. When the next 20% decline arrives, the investor with a short written script, automatic contributions, and a rebalance threshold is far more likely to come out richer than the investor who tries to improvise in the middle of fear.

If you only implement a short list in the next month, use the four checklist items below as your operating plan. They move the biggest lever first and create momentum before smaller cleanup work crowds the calendar.

- Keep automatic contributions running unless the money is genuinely needed for near-term spending.
- Rebalance based on written thresholds, not on market sentiment.
- Harvest taxable losses only with a clean replacement plan and wash-sale awareness.
- Limit portfolio checking if frequent viewing increases panic behavior.

After those first actions are in motion, use the tracker checkpoints—At -20%, Monthly during decline, and At new cash inflow—to confirm the change actually stuck. Most financial systems fail in follow-through, not in first-day enthusiasm. A dated review

catches billing reversals, allocation drift, paperwork delays, or missed implementation details while they are still easy to fix.

[Back to store](#)

Need help? [support@wingmanprotocol.com](mailto:support@wingmanprotocol.com)